

FY 2005 Massachusetts Community Development Block Grant Program

Housing Rehabilitation

GUIDE

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HOUSING REHABILITATION WITH CDBG

Housing Rehabilitation programs are a popular and important program component for many Community Development Fund (CDF) grantees. Housing rehabilitation programs help cities and towns achieve three key objectives of the Housing and Community Development Act:

1. Providing safe, decent, and sanitary housing conditions for low- and moderate-income people;
2. Improving the quality of life in lower-income neighborhoods;
3. Eliminating slum and blighting conditions.

Eligibility

A housing rehabilitation program is an eligible project under Title I, Section 105(a)(5), of the Housing and Community Development Act of 1974, as amended, when it is carried out for the purpose of providing or improving *permanent residential structures*. The program can be structured to include acquisition and/or rehabilitation of privately or publicly owned residential property, conversion of nonresidential structures to residential use, and the development of new residential units in existing residential or nonresidential structures. New housing construction is only eligible for CDBG funding if the project is carried out by a non-profit organization and is part of a neighborhood revitalization effort.

Housing rehabilitation funds are generally used to bring substandard housing units into compliance with Article II of the Massachusetts Sanitary Code, which sets minimum habitability standards for residential dwellings. In addition to addressing code violations, grantees use CDBG funds to remove lead paint from homes, repair or replace septic systems, connect housing units to sewer systems, upgrade electrical or plumbing systems, weatherize or increase the energy efficiency of a housing unit, and pay for temporary relocation costs during rehabilitation work. When all violations of Article II of the Sanitary Code are addressed in a given housing unit, communities can also use CDBG funds to finance general property improvements. There are limitations on general improvements that may be performed.

Although a wide range of housing-related activities are eligible for CDBG funds, they are not all included under the category “housing rehabilitation.” For example, communities can use CDBG funds to assist low- and moderate-income first-time homebuyers. CDBG funds can also pay for improvements to facilities that provide temporary or long-term shelter, transitional or permanent housing, for low- and moderate-income populations, such as homeless shelters or residences for adults with disabilities. The installation of on-site utilities for a new, low- and moderate-income housing development is also an eligible CDBG activity. Communities should use the “Other

Housing” Project Packet in the Mass. CDBG Application when undertaking these kinds of programs because the packet questions and criteria used to score these projects are different from “Housing Rehabilitation” programs.

National Objective

Benefit to low- and moderate-income persons: The national objective chosen for most housing rehabilitation programs is benefit to low- and moderate-income persons. "Low- and moderate-income" is defined as gross household income at or below 80% of the median income for the statistical area in which a community is located. Median income data are updated annually and published by the U.S. Department of Housing and Urban Development (HUD) for use by the Section 8 and CDBG Programs.

A CDBG-assisted housing rehabilitation activity will meet this national objective if a low- and moderate-income household occupies the assisted unit, upon completion. “Benefit” means that CDBG funds have paid for improvements that change a substandard unit into a safe, decent, and sanitary dwelling. ***Documentation to demonstrate compliance with the national objective requires that communities maintain information on individual household size and income, and that at least 51% of the units in a residential building are occupied by low- and moderate-income households.*** Therefore, a system of record keeping must be implemented that calculates both the incomes of individual households and the aggregate number of low- and moderate-income households residing in individual residential buildings. The record keeping must also be adequate to track and report the total number of individuals who benefit from the program.

Criteria for meeting the national objective of benefit to low- and moderate-income households includes:

1. A single-family dwelling unit must be occupied by a low- to moderate-income household.
2. Two-unit structures must be occupied by at least one low- to moderate-income household. If the property owner occupies one unit and the owner is income eligible, then the other unit may or may not be occupied by an over-income household. If the property owner occupies one unit and the owner is over-income, then the remaining unit must be occupied by an income eligible household.
3. Buildings with three or more units must have at least 51% of its units occupied by low- and moderate-income households -- e.g., at least two units in a building with a total of three units; at least four units in a building with a total of six units, etc. Owner-occupied units are included in the calculations. Mass. CDBG policy allows vacant units to be counted as income eligible as long as the property owner agrees in writing to limit rents to the HUD Fair Market Rent (FMR) or below, to restrict rent

increases for a minimum of fifteen (15) years, and to rent the unit to an income-eligible tenant.

4. The aggregate number of households assisted by a housing rehabilitation program must be at least 51% low- and moderate-income.
5. Tenant households are considered the beneficiaries of rehabilitated rental units and *their* household incomes must be calculated and documented to determine whether the national objective can be met by a proposed project. Investor owners of rental property do not have to be low- and moderate-income in order for their buildings to be eligible for rehabilitation assistance, if at least 51% of their tenants are income-eligible.
6. Rents for all rehabilitated units, whether occupied by income-eligible or over-income tenants, are subject to Mass. CDBG rental agreement policies limiting rent increases and requiring the rental of vacant units to low- and moderate-income households for a minimum of fifteen years following completion of rehabilitation. Rents may not exceed the lesser of the Section 8 Existing Housing Program Fair Market Rents as established by the U.S. Department of Housing and Urban Development (HUD) for the area pursuant to 24 CFR 888 or the High HOME Rents established by HUD pursuant to 24 CFR 92.252(a)(2).

Prevention or elimination of slum and blight conditions: Housing rehabilitation projects may address the national objective of preventing or eliminating conditions of slums or blight *on an area basis* if the area contains a substantial number of deteriorating buildings or public improvements as defined by state and local law. **Several federal requirements must be documented to meet this national objective.**

- The Chief Elected Official (CEO) or other authorized individual must determine that the area meets the state's definition of deteriorated, substandard, blighted or decadent areas as stated in MGL ch.121A and ch.121B.
- In addition, communities must also document that "throughout the area there is a substantial number of deteriorated or deteriorating buildings or the public improvements are in a general state of deterioration." At least 25% of the buildings in the target area must be rated as fair or poor. Please refer to the guidance on documenting the prevention or elimination of slum and blight conditions provided in the application.
- Projects seeking to qualify under slums and blight based solely on deterioration of public improvements must document that the public improvements throughout the area are in a general state of deterioration. Deterioration of a single element of infrastructure such as a road or a sidewalk does not meet this criterion.

- The assisted project must address one or more of the conditions that contributed to the deterioration of the area.
- An inventory of the substandard conditions that qualify the area as blighted must be developed as part of application development and maintained during grant implementation. If the proposal is funded, the specific projects undertaken must directly contribute to elimination or prevention of the conditions cited in the inventory.

Housing units rehabilitated with CDBG funds will directly address the blighting conditions when they are brought into compliance with Article II of the Massachusetts Sanitary Code. General property improvements can be made with CDBG funds only after assisted properties are brought into compliance with Article II. The standards for eligible work meeting a national objective are the same as those governing programs that benefit low- and moderate-income persons.

Housing rehabilitation may also be carried out on a *spot basis* if it is limited to addressing conditions that are detrimental to public health and welfare. Documentation to meet the national objective must include a complete description of the site including why the building or property is deteriorated or deteriorating. This description must include evidence of structural decay and the specific conditions, which present a health or safety hazard. A project will not qualify on a spot basis if the project is located in an area that meets the definition of a deteriorated, substandard or blighted area.

Designing a Housing Rehabilitation Program

The success of a housing rehabilitation program depends upon a program design that addresses the type, age, size, ownership, degree of repair needed, and ability-to-pay of property owners in a specific community. Successful administration also requires knowledge of building codes, ordinances and rules, construction methods and materials, specification writing and cost estimating, financing, and contracting.

How to design a housing rehabilitation program:

1. **Assess the need of the community.** Who lives in the community? Where do they live? Is there a concentration of low-income residents? Are there a large number of elderly residents? Are there a large number of families with young children? Is there a distinct, blighted residential area? How many residential structures are in the community? What is the age of the housing stock? What percentages of housing units have lead paint and/or asbestos? Are any properties located in a historically designated area or of other historical significance? What are the percentages of residential use types (i.e., single-family, duplexes, multi-family, apartments) and property ownership types (i.e., owner-occupied or investor-owned)? Are private financing or other subsidy programs available to pay for property improvements? What are local values and preferences?
2. **Gather information.** Some of the information needed can be found by consulting secondary sources including the U.S. Census (STF-3) and local, state, and regional surveys.

Secondary data sources may be used to create a community profile including household income, household size, housing type, housing conditions, local rent levels, new housing costs, and vacancy levels. However, the best way to develop an understanding of local housing conditions -- including improvement needs and costs -- is through some type of primary data collection.

Most communities conduct *windshield surveys* where one or two people drive around the community surveying conditions of the existing housing stock. Windshield surveys may be used to determine (1) the repair needs apparent from the exterior and (2) the level of seriousness (i.e., degree of threat to health and safety) of the problems identified. You may want to rank the conditions of housing exteriors along a continuum of 1 - no problem, 2 - minor repairs needed, 3 - substantial repairs needed, 4 - replacement required. Although the data may not be precise, they can provide useful information on the numbers and types of residential structures in your community as well as of property conditions.

It is not possible to inspect the interior of every building in a community or a target area. Although some assumptions about building interiors may be made from outside conditions, it is helpful to undertake inspections of a sample of interiors. A survey of sample interiors coupled with the windshield survey of building exteriors can provide a gross basis for projecting overall property repair needs and costs, the per unit cost of rehabilitation, the rehabilitation program budget, and the number of units that can be completed within this budget.

The rehabilitation program should be designed to address the needs of a “typical” property and of a “typical” property owner. The cost estimating of individual items can be used to produce an average estimate for all exteriors and interior repair needs likely to be found in a majority of structures. The total estimated costs for exterior and interior repairs could be combined to produce a budget for the rehabilitation of a typical dwelling unit.

Information gathered from the exterior and interior inspections may be supplemented and expanded by holding public meetings with property owners and/or distributing surveys or questionnaires. CDBG-funded programs include citizen participation requirements. Communities are encouraged to involve local residents in (1) identifying housing-related problems that can be addressed by the housing rehabilitation program and (2) evaluating program implementation so that appropriate modifications can be made, if necessary. Finally, citizen involvement in the program design is a useful marketing tool for generating local interest in program participation.

3. **Design the program.** Information on community and/or neighborhood characteristics and rehabilitation needs provide the foundation for the program design. The first set of data indicates, for example, whether a rehabilitation program for single-family homes or investor-owner properties is appropriate for the community. The second set indicates the dimension of financing that will be needed to address the needs of most eligible property owners. See the separate discussion below on “**Funding Mechanism**” for additional information.

The program design should focus on the following questions:

- Who is eligible for financial assistance under the program?
- What types of rehabilitation improvements must be made?
- How much will rehabilitation improvements cost?
- How many property owners can be served, given available funding; federal, state and local regulations; and the range of likely projects?
- How will the program address lead abatement with regard to the new federal regulations that have taken effect?
- Health and safety violations? (These types of violations require correction regardless of the particular program design)

If a large percentage of the housing stock is rental and most of the tenants are low- and moderate-income, a funding mechanism should be designed that provides an incentive for program participation by investor-owners, such as matching grants or low-interest loans. If a program is targeted to very low-income owner-occupants, then a loan program may not be an appropriate mechanism since at this income level they may have limited disposable income. Financial assistance in the form of grants, 100% or matching, or deferred payment loans, can be made available to low-income single-family property owners; however, this type of rehabilitation will incur a higher CDBG cost per unit and use a significant portion of a community's rehabilitation program budget.

Communities may design housing rehabilitation programs that are more restrictive than federal requirements. For example, although a whole building may be eligible for CDBG assistance because at least 51% of the units are occupied by low- and moderate-income households, the program design may restrict assistance to income eligible units and a pro-rata share of the common areas. Most programs, however, assist all units -- both income eligible and over-income -- in an eligible multi-unit building.

All FY 2005 housing rehabilitation programs are required to use Energy Star performance standards. These standards are found at www.energystar.gov.

4. **Set funding priorities.** CDBG funds are limited and communities will be confronted with competing rehabilitation needs. DHCD has established a funding cap of \$30,000 per unit for housing rehabilitation. Communities shall obtain prior DHCD authorization for projects the cost of which will exceed \$30,000, except in projects involving lead, barrier removal, septic, asbestos, historic preservation, for which the prior authorization of the Department will be required when projects exceed \$35,000 in cost. Municipalities must request a Single Case Waiver from DHCD utilizing the appropriate Single Case Waiver form from the Mass. CDBG Implementation Manual. DHCD may also request additional documentation. Documentation must demonstrate need, reasonableness of costs and compliance with applicable federal and state requirements.

It is important to clearly articulate the program design and funding goals so that you can **prioritize** the types of rehabilitation items to be addressed, and rank criteria for program selection. For example, some programs are designed to repair or replace septic systems as a priority, or target assistance to summer cottages converted into year-round residences. Housing activity funds should not be used for general property improvements until all violations of Article II of the Massachusetts Sanitary Code in the subject property have been corrected.

Some structures may be in such dilapidated condition that it may not be feasible not to provide assistance for property repairs. In making a decision about whether to assist such a property, consider not only existing property conditions and their threat to the health and safety of building occupants, but the consequences for the entire program of funding the project. What percentages of the total rehabilitation budget will this project use? Are there other resources available to pay or supplement the costs? Written selection criteria should serve as documentation for justifying your final decision.

In addition to prioritizing certain property conditions for repair, many communities establish criteria and priorities for selecting whom, from among all the eligible program applicants, will actually receive financial assistance. For example, priority may be given to elderly owner-occupants, to households with disabled members or to households with children under six years of age. Other communities, in contrast, have no priorities and serve eligible property owners in the order in which they apply.

It is important to note that applicant selection differs from program eligibility. Program eligibility is determined for residential structures and individual households by federal regulations and HUD sets income limits. On the other hand, participants for the program are selected from the pool of eligible applicants and structures and are based upon criteria and priorities established locally by each community.

Regardless of the applicant selection process being used, it is important that it reflect the program design (e.g., elderly property owners are a priority if the program is targeted to elders) and the critical needs of the community (e.g., lead paint removal is a priority because of the age of the housing stock and the large number of families with young children living in the community).

5. **Define a target area.** An analysis of the community will help to identify the location of the greatest need for housing improvements. Many communities designate a specific neighborhood as a geographic target area for the operation of their housing rehabilitation programs. If your community uses a target area, the boundaries of the target area, including streets or other geographic markers (e.g., parks, rivers, railroad tracks, or highways) that circumscribe the area, must be defined and indicated in the application.

However, a designated target area may not be appropriate for all communities. Some communities are either too small or too dispersed and, therefore, a town wide program design may be more appropriate. After several years of using target areas, some communities redesign their programs to

operate town wide. Regional Housing Rehabilitation Programs have proved very effective in addressing the needs of groups of communities. Other communities designate two or more target areas within one program or sequentially over several years.

6. **Identify other local resources and services available in your community.** You may find it helpful to develop an inventory of existing housing-related resources and services already available to residents of the community. This will assist in providing information and referrals to property-owners who are ineligible for participation in the CDBG-funded rehabilitation program as well as in supplementing limited CDBG funds. For example, many programs “piggy-back” their housing rehabilitation programs with the weatherization and energy conservation services of Community Action Programs (CAP agencies) or other nonprofit organizations.

7. **Establish written guidelines.** Communities must establish written guidelines for operating their housing rehabilitation programs. The guidelines should include eligibility qualifications, application procedures, property eligibility, construction priorities (e.g., code violations, incipient violations, septic systems), target area, types of assistance available, and selection criteria.

Funding Mechanisms

The funding mechanism or financing plan is part of the rehabilitation program design. It defines the form and substance of the financial assistance that will be provided to participants. The funding mechanism determines (1) who qualifies for financial assistance and (2) in what amount. The types of financial assistance offered should be based on local factors including, but not limited to, the percentage of low- and moderate-income residents, ability of residents to pay a portion of rehabilitation costs with private funds, willingness and availability of local lenders to participate in the program, condition of the housing stock, age of participants (e.g., elderly, young working couples, presence of lead paint or other hazardous materials, and number of years the program has been operating.

The financial assistance offered can affect the feasibility of individual rehabilitation projects. When designing the funding mechanism, it is important to consider the following:

1. **What can property owners afford?** In operating housing rehabilitation programs, communities assume many of the functions of mortgage lenders. Just like local banks, communities promote a financing product, take applications, qualify borrowers, commit funds, and close transactions. However, unlike private lenders, communities don’t need to make money from their transactions. Communities can provide assistance to property owners who otherwise could not afford to borrow from private lenders.

Housing rehabilitation programs should be designed to serve property owners in three income categories: (a) very low-income or “unbankable” owners who are unable to contribute private funds toward rehabilitation costs and cannot afford any monthly payments or additional debt; (b) low- and moderate-income property owners who cannot pay the entire

costs of rehabilitation but can contribute varying amounts of private funds or can afford some monthly payments and assume some debt; and (c) over-income owner-occupants and investor owners who may be able to afford the entire cost of construction but need an incentive to repair deteriorated rental properties.

2. **How is ability-to-pay determined?** The amount a property owner can afford to spend for rehabilitation costs may be based on debt-to-income ratio, loan-to-value ratio, and individual credit history. You may find it helpful to use the same evaluation tools employed by private lenders to determine a property owner's ability-to-pay all or a portion of rehabilitation costs.

3. **What types of financial assistance are available?** Housing rehabilitation programs generally provide property owners with three types of assistance or some combination of the three. The funding mechanism selected should consider client income, ability-to-pay/debt-to-income ratio, credit history, and whether the assistance is for an owner-occupied unit or for rental property.

- **Grants:** Direct grants do not require repayment tied to a recapture policy. Grants may be for the full (100%) cost of rehabilitation or for a certain percentage of the cost as a matching grant. The amount of the property owner's "match" can be calculated in several ways. For example, a sliding scale can be used to calculate the match of 0 to 75% depending on the property owner's income and ability to pay a portion of the costs. Grants are generally given to property owners with incomes 50% or below the median income and/or to property owners who are "unbankable" (i.e., an income and expense analysis determines that they are unable to bear the financial burden of a loan). Please note there is a minimum fifteen (15) year affordability and lien requirement.
- **Deferred Payment Loans:** Many programs place conditions on grants or offer them as forgivable or "deferred-payment" loans (DPLs). A property lien in the amount of the DPL is placed on the property for a specified number of years (15 year minimum.) However, a DPL becomes a grant if it is not sold or transferred within a specified period of time and if all other program requirements are met (e.g., rental agreement). If the lien conditions are violated, the borrower (i.e., the property owner) is subject to specified penalties -- generally, foreclosure on the loan amount. DPLs may take the form of interest subsidies or principle reduction grants to leverage other funds, or they may provide the full amount of rehabilitation costs up to a program's established maximum limit. A property owner receiving a DPL would not have to make any loan repayments and the full amount of the loan would be forgiven if he/she still lived in the assisted property at the end of a specified number of years. If the property was sold before the end of this specified lien period, then the full amount or a portion of the amount would have to be repaid.

- ***Low interest loans:*** Loans may be made directly from the community to the property owner at below-market rates. Some communities service their own loans. Others contract with local banks or nonprofit organizations (e.g., community development corporation) to service loans and make collections. The program design should reflect whether the community has the capacity to underwrite and service loans or will need to contract with a local bank or nonprofit organization. Deferred-payment CDBG loans may also be used in conjunction with direct loans from private lenders in loan leveraging arrangements. The leveraged loan may call for the program to provide a portion of the financing at no charge to the borrower with the balance coming from a private lender. The program's portion may be secured in a separate lien, subordinate to the lender's, and contain whatever requirements have been agreed upon with the lender.

CDBG funds can also be used to attract or leverage private dollars and to create a pool of funds for rehabilitation loans at reduced interest rates. Public funds thus become a tool for involving private resources in the program. Successful and efficient leveraged loan programs get private lenders to lend to property owners who would not ordinarily qualify for the lender's financial services. Two techniques have proven effective in leveraging private funds:

- ***Principal reduction payments*** apply CDBG funds to reduce the amount of principal borrowed from a private lender. A payment for part of the principal amount needed is made to the borrower by the rehabilitation program. The private lender pays the balance. The payment reduces the principal borrowed privately and serves to reduce the effective interest rate on the total cost of the rehabilitation.
- ***Interest subsidies*** apply CDBG funds to pay the difference between the market return on a loan and the borrower's repayments. The private lender provides the total cost of rehabilitation at the below-market interest rate and the CDBG subsidy is paid to the lender rather than to the borrower.

4. **How can assisted properties be protected from speculation?** CDBG-assisted housing rehabilitation programs must include in their design an ***anti-speculation / recapture / forgiveness policy*** to protect against real estate speculation. Most communities impose a time limit in the form of a lien (15 year minimum) on the property that restricts the sale or transfer of ownership. Full or partial funds are recaptured (i.e., recovered) by the community if a property is sold or transferred before the expiration of the lien. All contractual agreements executed between communities and individual property owners must include anti-speculation and recapture provisions that are triggered in the event of (a) sale or transfer of the assisted property, (b) noncompliance by the property owner with the terms of the rental agreement, and (c) noncompliance with other provisions of the contract.

Mass. CDBG recommends that the time limitations in a recapture policy be appropriate to the level of investment of public funds, the financial condition of participating property

owners, and the nature of the rehabilitation work. Many municipalities waive the recapture of funds if the transfer of property is from one family member to another (e.g., parent to child or sibling to sibling) and the new occupant family (a) resides in the property, (b) is income eligible, and (c) assumes the balance of the years remaining on the lien. However, Mass. CDBG requires that assisted units be made affordable to low- and moderate-income households for a minimum of fifteen (15) years.

The recapture policy must include a description of the community's procedures for compliance monitoring and the corrective action(s) that will be required of violators. Liens and mortgages are two legal means employed by housing rehabilitation programs to enforce and protect the terms of recapture policies. Mortgages are generally used with funding mechanisms that require monthly payments by owner. In such instances, the banking institution and/or the municipality assume responsibility for filing, tracking, and clearing the mortgage. Consequently, the community must establish a system for filing, tracking, and discharging the liens and for filing, tracking, and clearing the mortgages.

Program Management

One of the most important aspects of a housing rehabilitation program is program management. To insure this a strong and comprehensive management plan must be designed and implemented. **Four basic administrative functions are necessary for the day-to-day operation of a housing rehabilitation program:**

- Program management involves the overall administration of the program including the development of the lines of authority, secretarial and clerical roles, and all liaisons with local officials.
- Marketing and citizen participation involves responsibility for "selling" the program in the community, soliciting program applicants, and ensuring that local citizens are involved in the ongoing evaluation of program implementation.
- Grant and loan processing involves financial counseling of property owners, the underwriting and processing of loans, grants, and/or DPLs, and liaison work with banks, other financial institutions, and/or other programs.
- Construction involves undertaking initial property inspections, contractor selection, work write-ups (i.e., specification writing), cost estimates, progress inspections of construction work, final inspections, and payments.

In addition, the community must design a local appeals process for whereby complaints, by housing rehabilitation recipients may be addressed.

There is no one “right” way to manage and staff a housing rehabilitation program. The selection of a staffing arrangement and the personnel to fill that arrangement should reflect the size, needs, budget, and expertise of the community. For example, a full-time rehabilitation specialist can generally complete between 25 and 40 housing units a year. If only a small number (10 - 15) of units will be rehabilitated, then a part-time position is sufficient. However, the level of production and the number of staff hours required may be affected by the types of buildings being rehabilitated and the existing property conditions, including whether lead paint is present. In addition, rehabilitation of single-family homes in rural areas may require more staff time than an equal number of multi-family units in more accessible urban locations.

Other Considerations

DHCD has maintained a consistent policy regarding the implementation of the HUD Lead Paint Rule that went into effect September 15, 2000. DHCD continues to require Massachusetts CDBG Program grantees to apply the HUD requirements in federally funded projects that trigger the rule. As has also been the practice, Mass CDBG-funded projects must also comply with the Massachusetts lead paint regulations when conditions that trigger the state law exist. Information on the federal requirements may be found at <http://www.hud.gov/offices/lead/>.

Because housing rehabilitation programs generally involve privately executed contracts between homeowners and contractors, procurement of construction services is not governed by state public bidding laws but rather, by federal regulations found at 24 CFR Part 85. The design of a housing rehabilitation program should include procurement procedures that demonstrate reasonableness and eligibility of federally financed costs in order to meet the basic requirements of Part 85. Mass. CDBG recommends that at least three bids be solicited for each rehabilitation project and that the **lowest responsible bid** be accepted when committing CDBG funds to individual projects.

Generally, housing rehabilitation through the Community Development Fund involves one- to four-unit buildings. These projects do not trigger payment of federal prevailing wages under the Davis-Bacon Act. However, a rehabilitation project that improves eight or more units **does** trigger Davis-Bacon requirements -- meaning that federal wage schedules must be incorporated into the construction contract, that appropriate wage rates must be paid to each job classification, and that monitoring to ensure compliance must be undertaken. Prevailing wages rates can substantially increase total costs of a rehabilitation project.

CDBG-financed rehabilitation in mixed-use buildings, where some of the work benefits residential space and other work improves commercial space, will almost always involve Davis-Bacon compliance. This is because non-residential construction costing \$2,000 or more obligates the payment of federal wage rates regardless of the amount of federal funds actually committed to the contract. Construction contracts for these types of projects need to be carefully structured so that prevailing wage payments can be tracked for that portion of the job where they apply. Communities need to take this into account with their program designs, property selection procedures, and management plans.

